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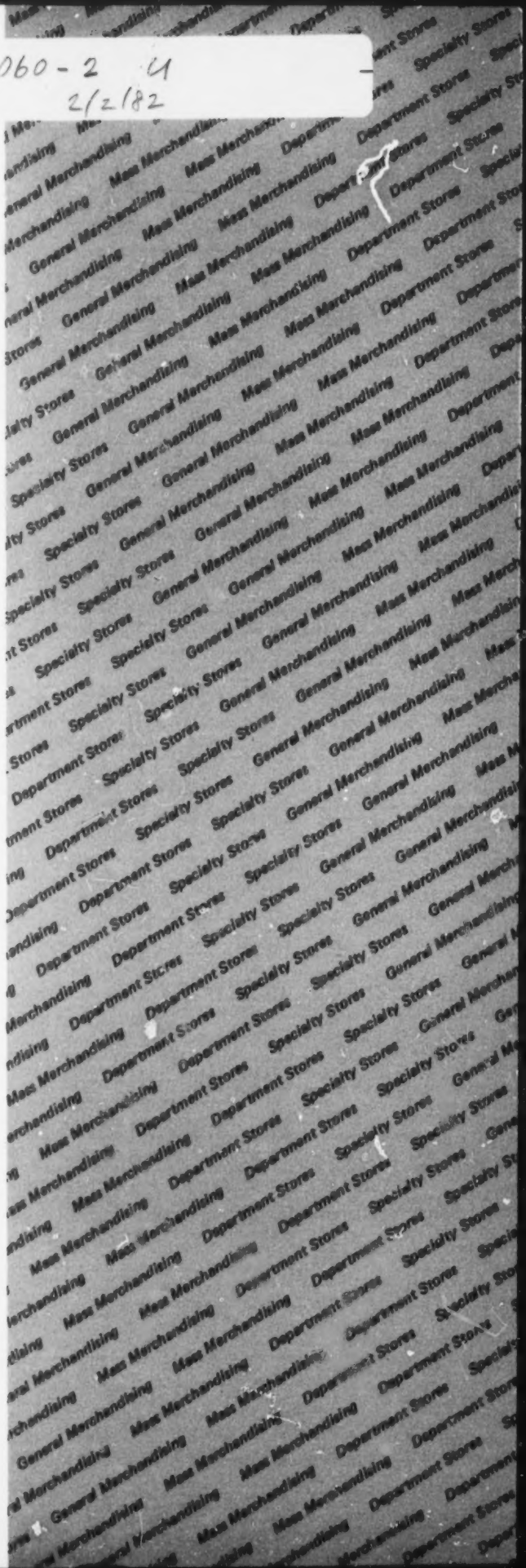
NMRI
National Mass Retailing Institute

SECURITY AND SHRINKAGE

Third Annual Study of Inventory Shrinkage Control & Security Procedures in Retailing



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The NMRI is an association representing more than 450 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables for groups that include executives involved in:

- Annual merchandising and management conventions
- Top management
- Financial management
- Advertising and promotion
- Loss prevention
- Personnel
- Government affairs

Communications about NMRI—and requests for additional copies of this study—should be directed to its president, Richard Hersh, at the association's headquarters: 570 Seventh Avenue, New York, NY 10018.

ARTHUR YOUNG & COMPANY

Arthur Young is an international accounting and consulting firm. Through its National Retail Group, the firm specializes in providing accounting, tax, and management consulting services to executives and companies in the retail industry. Arthur Young has offices in 77 cities in the United States and in more than 300 cities in 65 other countries. Questions or comments for Arthur Young should be addressed to either of the following:

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ARTHUR YOUNG

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January 15, 1982

Dear Reader:

We are pleased to submit the third Annual Report on Security and Loss Prevention Practices and Shrinkage in the Retail Industry. This year's report, which is sponsored by the National Mass Retailing Institute, has been expanded to include all segments of the industry.

The results are detailed in the report, but there are several findings that stand out:

SHRINKAGE

- This year, shrinkage, as a percentage of sales, declined to 1.9% from 2% for retailers responding to the survey. Mass merchandise chains reported a decline to 1.8% from 1.9%, department stores to 2.7% from 2.8%, and the specialty store percentage remained 2.2%.

PROSECUTION POLICIES

- Strong prosecution policies continued to be a major factor among retailers. Fifty-six percent of those apprehended were prosecuted and 90% of those were convicted.

EXPENDITURES

- Expenditures relating to security matters rose from .31% to .34% of sales. Mass merchandisers spent .31% of sales this year as compared to .28% last year.

REWARDS

- Similar to last year's finding, the importance of employee reward and recognition programs was a significant factor. Eighty-six percent of the companies had some type of program.

SOURCE OF LOSS

- In the aggregate, retailers attributed 50% of their shrinkage to employee theft, 30% to shoplifting, and 20% to paperwork problems.

This year's report has been expanded in several additional areas. Included on page 15 is a profile of low shrinkage mass merchandising companies. The data was based on the results of the survey. In addition, we have expanded the loss prevention checklist, which can be easily detached from this booklet for your use.

The information presented in this study by Arthur Young was obtained from questionnaires completed by retail organizations and was computer tabulated; therefore, it has not been subjected to independent audit.

This study was designed to be useful to executives in the retail industry. We encourage our readers to contact us directly with comments and suggestions for data that we might collect in next year's survey.

Very truly yours,

Arthur Young & Company

by: Errol M. Cook
Chairman, National Retail Group

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Introduction

This report is the third in a series conducted by Arthur Young & Company under the sponsorship of the National Mass Retailing Institute (NMRI).

This year's study is marked by a 27% increase in the number of mass merchandiser respondents and includes, for the first time, department and specialty stores. The substantial increase in this year's number of respondents reflects the continuing concern of retail management regarding security and loss prevention.

In future years, as our data base expands, we anticipate increasing the number of tables and findings relating to department and specialty stores.

For purposes of this study, the following definitions apply:

- *Mass merchandisers.* Discount, general merchandise, and variety chains with multidepartments, central check-out, and limited selling staff.
- *Department stores.* Store chains with multidepartments, offering departmental check-out and a highly visible selling service. This includes specialty stores that principally have department store characteristics.
- *Specialty stores.* Retailers that have few departments with central check-out, and generally with 7,500 square feet or less of selling space per store.

This report provides information that may be of value to the retailer in planning new loss-prevention programs, as well as evaluating programs currently in practice. This report is designed to aid management in the development of action-oriented programs in an effort to improve shrinkage results.

This year, in addition to reporting the survey findings, we have expanded several sections and included observations on and implications of the findings.

The study was performed in the fall of 1981. This year's questionnaire was revised, based on the results of last year's study and comments received from retailers. Questionnaires were mailed to retail companies from lists compiled from a variety of sources. The identity of the respondents to the questionnaires has been kept confidential by Arthur Young. Responses to the questionnaire were processed by computer; the data compiled led to the Executive Highlights that we issued on November 30, 1981, and this final report. For ease in reading, percentages throughout the report have generally been rounded to the nearest whole number.

The findings presented in this study represent data submitted by the participating retail organizations, and should not be used for projections covering the entire retail industry.

Tables and answers to every question in the original survey questionnaire are not included due to space limitations and a lack of sufficient responses to some of the questions. However, if you need additional details relating to specific questions, please let us know, and, if possible, we will obtain the data from our computer files compiled for the responses.

In making the comparison of sales, shrinkage, and security expenditures for 1979 and 1980, we used data supplied by this year's participants for both years. Otherwise, all references to last year are in comparison to the results published in our last study.

The Participants

Seventy-nine mass merchandisers operating in more than 20,000 individual locations participated in this year's study. Their aggregate 1980 sales volume was in excess of $46 billion. Shrinkage for these organizations exceeded $800 million (Table 1). Last year's study, which included only mass merchandisers, had responses from 62 companies operating in more than 13,000 locations, with aggregate sales volume in excess of $18 billion. Participants this year also included 26 department store chains or organizations operating in more than 450 individual locations, with 1980 sales in excess of $4 billion, and 22 specialty stores or chains operating in more than 4,600 individual locations, with sales in excess of $3.5 billion.

Overall, Arthur Young received responses from 127 retail organizations operating in more than 25,000 individual locations. Aggregate 1980 sales for these organizations was in excess of $53 billion. Shrinkage reported by these companies was slightly above $1 billion.

Sixty-seven percent of all participants reported sales of at least $100 million (Table 2). Nearly one-half (48%) had sales of from $100 million to $499 million. While 28% of the mass merchandisers had at least $500 million in sales, only 8% of the department stores, and none of the specialty stores, were as large.

Over one-half (51%) of the respondents had fewer than 50 individual store locations (Table 3). Eleven percent had at least 500 stores. As expected, mass merchandisers and specialty store companies have a greater number of individual locations than department stores. Nearly one-half of all specialty stores (49%) and 46% of the mass merchandisers had at least 100 store locations. By comparison, all of the department stores had fewer than 100 locations.

Seventy percent of the participants reported operating at least one-half of their stores in suburban locations (Table 4). This was true of 60% of the mass merchandisers, 69% of the department stores, and 100% of the specialty stores.

Shrinkage Results

Study participants reported aggregate inventory shrinkage to be 1.9% of sales for the 1980 fiscal year, as compared to 2% in 1979. This reduction in shrinkage was a result of mass merchandisers reporting a decline to 1.8% from 1.9%, and department stores to 2.7% from 2.8%. Shrinkage for specialty stores remained constant at 2.2%. (See Table 5.)

While shrinkage as a percentage of sales declined for mass merchandisers, 42% of the companies reported increased shrinkage, as compared to 39% reporting decreased shrinkage.

In 1980, the dollar value of shrinkage in participating companies exceeded $1 billion. The majority of the respondents did not provide comprehensive information analyzing shrinkage by department; however, to the extent that data was available, the highest incidence of loss was in the jewelry, ladies' accessories, small electronics, and sporting goods departments.

This report will indicate some of the actions being taken by retailers that seem to have successfully reduced shrinkage. These actions will be discussed in the sections on security expenditures, devices used on the selling floor, prosecutions, and personnel policies.

Shrinkage Attributions

In aggregate, the participating retail organizations attributed approximately 50% of their inventory shrinkage to employee theft, 30% to shoplifting, and 20% to errors in paperwork and accounting procedures. It should be noted that, in general, companies do not have formal methods of determining the actual source of shrinkage. However, we asked for opinions and perceptions for purposes of this study (Graph A). It is significant to review the results of other sections in this report relating to employee education, rewards, and screening when focusing on the retailers' perception of the amount of employee theft.

Mass merchandisers were more likely than department stores (39%) and specialty stores (41%) to attribute higher amounts of shrinkage to some form of employee theft (52%). In general, mass merchandisers attributed 18% of the shrinkage to poor paperwork, as compared to department stores, 29%, and specialty stores, 30%. This may indicate that mass merchandisers are more confident in their control of paperwork and operational procedures than either department or specialty stores.

Forty-five percent of the mass merchandisers (as compared to 26% last year) attributed more than 50% of the shrinkage to employee theft. This represents a significant year-to-year change and emphasizes a real need to formulate or enhance security programs within this area.

Participants were asked to indicate up to three courses of action that would be most beneficial in reducing shrinkage in their companies (Graph B – Page 10). The most common response was to improve employee education (89%), while more than one-half (55%) believed that improved employee screening would be useful. Although retailers attributed the smallest portion of their shrinkage to paperwork problems, 60% believed that improved paperwork and accounting methods were among the best strategies for reducing shrinkage in their companies.

Graph A
Attributions of Aggregate Shrinkage by Store Type

Security Expenditures and Personnel Practices

Budget

The dollars spent in fiscal 1980 on security and loss prevention staffing, equipment, and programs increased 24% over fiscal 1979. The $184 million expended in 1980 represents .34% of sales, an increase from 1979's .31% of sales. Expenditures ranged from a low of .01% to more than 1%, with a median of .35%.

In 1980, mass merchandisers increased security and loss prevention expenditures to .31% of sales from .28% the previous year. The total security outlay, $142 million, represents an increase of 16% over 1979. Even with this increase, the majority of mass merchandisers (68%) spent less than .5% of their sales on security and loss prevention (Table 6).

Most department stores (56%) spent from .5% to .99% of their sales revenues on security and loss prevention, while specialty stores more often (66%) spent less than .25% (Table 6).

The increase in security and loss prevention expenditures, as noted above, and the decrease in shrinkage reported by study participants present an interesting relationship between the two factors. Although one cannot generalize that increased expenditures result in decreased shrinkage, our experience indicates that when security dollars are planned for and directed to specific areas of a company, rather than being randomly distributed, the shrinkage performance will have a positive impact on the bottom line.

Staffing

The primary determinant of the number of employees in the security function is company size, although there is some variation by type of company. For example, among mass merchandisers, 64% of the companies with sales of at least $500 million reported employing a minimum of 100 people in their security function, which is similar to the findings of last year. In contrast, 62% of the companies with sales under $100 million hired fewer than 10 security employees, compared to 9% of the companies with sales greater than $500 million. Overall, 30% of the mass merchandiser respondents reported fewer than 10 security employees and 26% reported 100 or more (Table 7).

Fifty-seven percent of the department stores, which tended to report smaller sales volumes than the mass merchandisers, reported employing from 20 to 99 people in the security function. Specialty stores, while close in size to department stores in this survey, reported fewer employees in this area: 77% of the companies reported fewer than 10 employees in the security function.

A similar relationship between company size and number of employees was found in the inventory control function. While 57% of the mass merchandisers had fewer than 20 employees in this area, those companies with sales of at least $500 million were much more likely to have at least 20 employees in the inventory control function than smaller companies.

Department and specialty stores tended to have smaller inventory control staffs than mass merchandisers. More than four-fifths of the companies in each of the industry segments reported fewer than 20 people in this function. More than two-thirds (69% of department stores and 71% of specialty stores) had fewer than 10 inventory control employees.

Organization Reporting and Personnel Practices

The corporate head of security most frequently (40%) reported to the top operations executive (Table 8). Twenty-one percent of these corporate heads of security reported directly to the company president, and 15% reported to the top financial officer. At the store level, 34% of the companies had their head of security report to the store manager, followed by 21% with security heads reporting to the corporate security director (Table 9). Twenty-one percent of the responding companies did not have heads of security in individual stores. In some cases, the size and volume of the individual location do not warrant hiring an individual specifically for security, and the function can be handled by either the store manager or the operations manager.

Among the mass merchandisers, the corporate head of security reported to the top operations executive in 41% of the companies, and to the president in 23% of the companies. Smaller companies (sales of less than $100 million) were more likely to have the corporate head of security report to the president. This reporting relationship was used by 33% of the companies, compared to 5% of the companies with sales greater than $500 million. In contrast, in 64% of the large companies, the corporate head of security reported directly to the top operations executive, compared to 38% of the companies with sales of less than $100 million.

In 38% of the mass merchandising companies, the stores' heads of security reported directly to the store manager, followed by 21% reporting to the corporate security director. Last year's study indicated that 23% of the stores' heads of security reported to the store manager, and 24% reported to the corporate security director. (See Table 9).

In both department and specialty stores, the corporate head of security was most likely to report to the top operations executive (38% and 41%, respectively). However, in department stores, the next most common reporting relationship was to have the security director report to the top financial officer. This relationship was much more common among department stores than in the other industry segments: 31%, compared to 9% of the specialty stores and 12% of the mass merchandisers. In 18% of the specialty stores and 15% of the department stores, the corporate head of security reported directly to the president (Table 8).

At the store level, the head of security reported to the store manager in 42% of the department stores, followed by the regional security director (23%). In specialty stores, the security head was most likely to report to the corporate security director (27%). The size of an individual specialty store, in many cases, does not justify the expense of hiring an individual to work solely in the security function. This might explain why 36% of the specialty stores did not have a security head at the store level.

Hiring Practices

Among all participants, a background check (i.e., employment experience, education, personal references) was the most frequently used method (93%) of screening security personnel (Table 10). This was followed by the use of a security or loss prevention interview (75%). These in-depth interviews, which focus on the applicant's knowledge of specific loss prevention techniques, are not usually required for nonsecurity personnel. Close to one-half (46% of the companies) used credit checks as part of their screening process. Polygraphs and psychological tests were less frequently used (34% and 24%, respectively). This may be due to the fact that such tests are costly, time consuming, and, in some cases, may be offensive to potential employees.

Background checks were used by 92% of the mass merchandisers in screening new hires for their security function. This is a significant increase over last year's results, which indicated that 81% of the participants used background checks. Sixty-nine percent used a security or loss prevention interview (60% last year). Smaller companies were less likely to use this method: half of the companies with sales of less than $100 million used a security or loss prevention interview, compared to 68% of the companies with sales in excess of $500 million. Credit checks, used by 37% of the mass merchandisers, were most frequently used by companies with less than $500 million in sales (44%, compared to 27% of the companies with sales in excess of $500 million). Smaller companies also used psychological tests more frequently (50% vs. 9% of larger companies).

As with the mass merchandisers, the most common screening method used in department and specialty stores was the background check (96% and 95%, respectively), followed by use of a security or loss prevention interview. However, department stores were much more likely to use the latter method (92% compared to 74% of the specialty stores). Credit checks were used by 64% of the department stores and 58% of the specialty stores. Polygraphs and psychological tests were less common. (See Table 10.)

Not surprisingly, background checks were also the most popular method of screening nonsecurity personnel: 87% of the companies reported this practice (Table 11). Credit checks and polygraphs were each used about half as frequently in screening nonsecurity personnel compared to security personnel (23% vs. 46%, and 18% vs. 34%, respectively). Security or loss prevention interviews were much less frequently used (7% vs. 75%). For the most part, these practices were similar among all of the industry segments.

Participants were asked to indicate the importance of significant retail experience, a college education, or a law enforcement background in hiring security personnel. Of these, significant retail experience was most frequently reported to be very important. Sixty-one percent of the participants indicated that it is very important, compared to 24% reporting that a college education is very important, and 14% that regarded a law enforcement background to be of great importance (Table 12).

Similar to the overall findings, 60% of the mass merchandisers regarded significant retail experience to be very

important in hiring security personnel. Last year, only 47% of the participants regarded this factor to be very important. A college education and a law enforcement background were considered to be very important by 24% and 14% of the companies, respectively. Similar to last year's findings, larger companies (at least $500 million in sales) used somewhat different criteria than smaller companies (less than $100 million in sales). Larger companies placed more importance on retail experience and a college education, while smaller companies were more likely to view a law enforcement background as very important. Smaller companies do not have the benefit, for the most part, of a separate legal staff; they would therefore require their security personnel to have had experience in understanding some of the legal requirements and pitfalls in apprehensions, as well as having knowledge of specific security-related operations. The larger companies would be more inclined to teach the law enforcement aspects of the security function to an educated individual with retail experience.

Department stores were the least likely of the industry segments to view each of the three criteria as being very important, while specialty stores were the most likely to do so.

Personnel Policies and Training Policies

Most of the companies (89%) have some form of orientation program for their new hires in the security function. Training manuals and in-store training programs were the most commonly used orientation methods (76% and 66%, respectively). Formal classes were used by 34% of the companies. (See Table 13.)

Overall, 92% of the mass merchandisers had an orientation program—the same as last year. Training manuals were used by 81% of the companies (76% last year), and 68% used in-store training (the same as last year). Similar to last year's findings, larger companies were more likely to have some of the various types of formal orientation programs. Smaller companies were more apt not to have any program.

Of the industry segments, department stores had the smallest incidence of formal orientation programs for all new hires in the security function: 23% reported that they did not have a program. Department stores were also least likely to have a training manual (62%).

Orientation programs for security personnel were used by 94% of the specialty stores. Training manuals were the most commonly used method (78%). Use of in-store training was less common in specialty stores (50%) than in the other industry segments.

Overall, 63% of the companies trained all employees, including sales personnel, in techniques of loss prevention (Table 13). Generally, the larger the company, the more prevalent is this practice.

Training programs were most common among mass retailers (70%—nearly the same as last year). Of these companies, 86% of those with sales of at least $500 million train all employees, compared to 62% of those with sales below $100 million. Specialty and department stores reported similar levels of use of training programs (50% and 54%, respectively).

We may not be able to use this as a reason for department stores reporting a higher shrinkage, but if they used more time in creating an awareness of shrinkage among sales people, shrinkage results probably would be more favorable. This point is reinforced by the retailers' belief that employee education is the most important method of reducing shrinkage (Graph B).

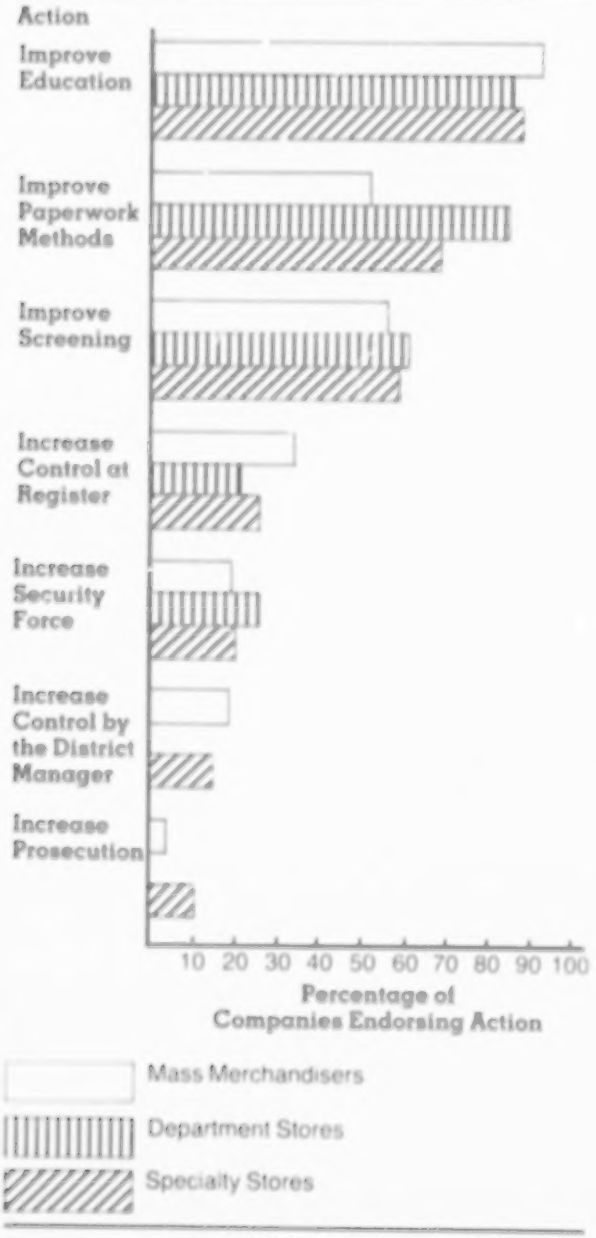
Reward and Recognition Programs

Participants were asked how they reward employees for improved loss prevention. Nearly two-thirds of the respondents (64%) reported providing payment to employees for their role in reducing shrinkage or for apprehending individuals who steal (Table 14). Over one-half (54%) provide other forms of recognition to individual employees who are instrumental in controlling shrinkage.

Only 14% of all participants did not have any reward or recognition program. This demonstrates the extent of concern regarding shrinkage and the importance that retailers attach to employee involvement in its control.

Among the mass merchandisers, 54% of the companies reported paying employees as a reward, and 57% provide other forms of recognition. (These findings are similar to those of last year.) Larger companies (at least $500 million in sales) were more likely to provide nonmonetary recognition than companies with less than $100 million in sales (70% vs. 55%).

Graph B
Actions Retailers Believe Would Do the Most to Reduce Shrinkage



Department stores were most likely both to reward their employees and use payment as a reward. All but 8% reported a reward program and 88% paid employees for their role in reducing shrinkage or apprehending individuals. Over one-half (54%) of the companies provided other forms of recognition.

Sixty-five percent of the specialty stores reported paying employees, while fewer than one-half (45%) provided other forms of recognition.

In discussions with retailers after the release of last year's report, and during the preparation of this year's study, we noted significant interest as to the types and extent of the programs mentioned above. Further, as can be seen in other sections of this report, employee awareness, education, and participation are key ingredients in a successful loss prevention program.

Control Policies

Measurement

Perpetual inventory records were maintained by 69% of the participating companies. This practice was most common among specialty stores (82% vs 65% of the mass merchandisers, and 68% of the department stores). Most (88%) of the participating companies took inventory once (40%) or twice (48%) per year.

Of the industry segments, mass merchandisers were most likely to take inventory only once a year (49% vs. 25% and 28% of the department and specialty stores, respectively), and department stores were most apt to take inventory twice a year (72% vs. 50% of the specialty stores, and 29% of the mass merchandisers).

Practices regarding shrinkage calculation were similar to those of taking inventory. The majority (77%) of all companies calculated shrinkage once (37%) or twice (40%) a year. Mass merchandisers were more likely to make this calculation just once a year, whereas, in most instances, department and specialty stores calculated it twice.

Security Devices Used on the Selling Floor

Mirrors were the most commonly used security devices, reported by 84% of the respondents, followed by limited access areas (70%—Table 15). Observation booths (54%) and TV monitors (48%) were used by the respondents, while 33% reported the use of electronic tags (Table 15). However, 48% of those companies using electronic tags reported them to be the most effective of the devices they used (Table 16). In contrast, only 5% of the companies using mirrors found them to be the most effective device used, while 66% reported them to be the least effective (Table 17). It should be noted that for mirrors to be effective, personnel must be available to watch them, and, therefore, the cost benefit ratio may be adverse.

Similar to both overall and last year's findings, the most common security devices used by mass merchandisers were mirrors, limited access areas, and observation booths (85%, 74%, and 59%, respectively). Less than half of the respondents reported use of TV monitors (47%) and electronic tags (21%). With the exception of limited access areas, companies with sales of at least $500 million were more likely to use each of these security measures than stores with sales of less than $100 million. For example, 77% of the larger companies used TV monitors, and 73% had observation booths, compared to 24% and 43% of the smaller companies, respectively. Nearly twice as many of the larger companies used electronic tags (27% vs. 14% of the smaller companies).

Of all industry segments, department stores reported the greatest incidence of use of each of the security devices, except mirrors, than the other industry segments. The differences were most noticeable in the use of both TV monitors (73%, compared to 47% of the mass merchandisers and 23% of the specialty stores) and electronic tags (62%, compared to 21% of the mass merchandisers and 45% of the specialty stores). Specialty stores were the least likely to make use of observation booths (14% compared to 59% of the mass merchandisers and 77% of the department stores). This is often due to the smaller square footage of specialty stores.

Department and specialty store use of electronic tags is currently more extensive than their use among mass merchandisers because of their ease of application to soft goods. However, we have noted an increase, compared to last year, in the use of such tags by mass merchandisers. This might be due to the use of new tags that can be applied to smaller items such as records, tapes, jewelry, handbags, etc.

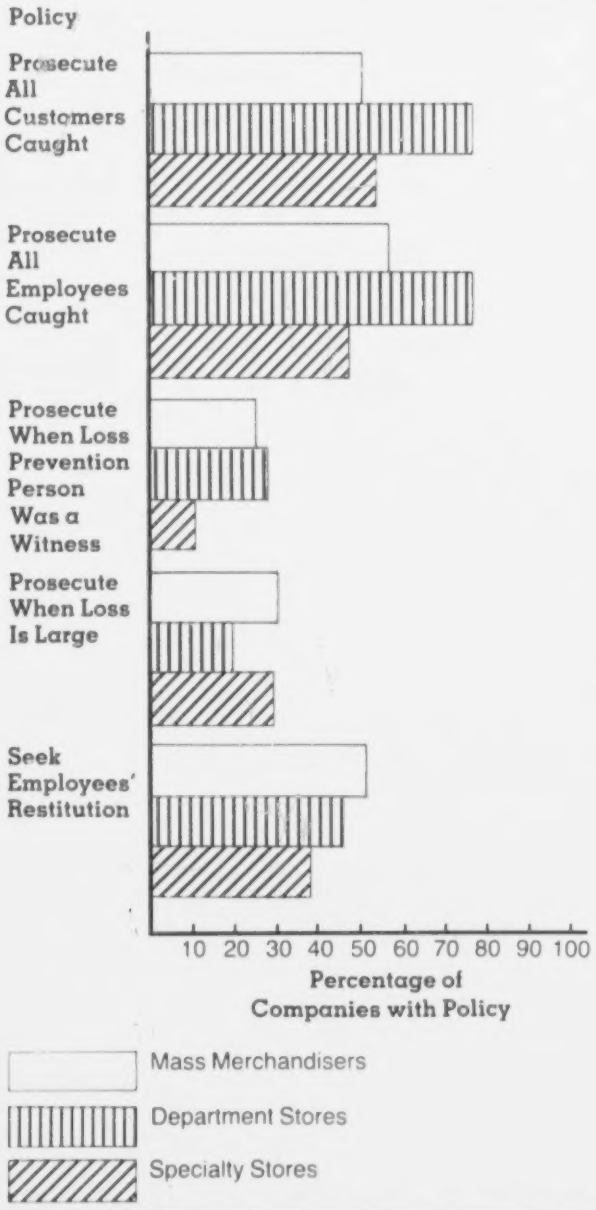
Prosecution Policies

When asked about their policies regarding prosecutions, more than one-half (55%) of the respondents reported a policy of prosecuting all customers caught shoplifting and 60% had a policy of prosecuting all employees caught (Graph C). More than one-fifth (22%) would prosecute if a loss prevention person saw the crime being committed, or if there was a large loss (a 28% prosecution rate). Nearly one-half of the companies (48%) reported that they seek restitution from employees caught.

Department stores had the strictest policies for prosecuting both all customers and all employees caught: 77% reported having this policy. Approximately one- half of both the mass merchandisers and specialty stores reported policies to prosecute all customers caught, and 57% and 48%, respectively, prosecuted all employees caught. In practice, based on the survey, few companies were as strict in their prosecutions as their policies indicate. Many, for example, may be selective in prosecuting juveniles or may take extenuating circumstances into consideration. The findings for mass merchandisers were similar to those of last year.

Graph C

Prosecution Policies


Policy
Prosecute All Customers Caught
Prosecute All Employees Caught
Prosecute When Loss Prevention Person Was a Witness
Prosecute When Loss Is Large
Seek Employees' Restitution
10 20 30 40 50 60 70 80 90 100
Percentage of Companies with Policy
Mass Merchandisers
Department Stores
Specialty Stores

Overall, those companies reporting data prosecuted an aggregate of 55% of all individuals apprehended in their stores. Mass merchandisers and department stores each reported a higher proportion of prosecutions than specialty stores (55%, 62%, and 38%, respectively). Prosecutions require a great deal of time and effort. Specialty stores, in general, have small security staffs and may not have sufficient resources to devote to this activity.

In total, out of the 280,000 apprehensions reported, only 16 out of every 10,000 resulted in false arrest suits against the companies, whereas 90% of all prosecutions resulted in convictions. This appears to be significant for the retailer, since previously there seemed to be concern that being aggressive in prosecuting could result in costly lawsuits.

Warehouse Security Methods

The most widely used in-store warehouse security procedure was to ensure that doors are kept closed when not in use (reported by 92% of the respondents). The next most prevalent technique was the use of sealed trucks (65%). In out-of-store warehouses, both closed doors and sealed trucks were also among the most common security procedures (84% and 87%, respectively). Guards were more common in out-of-store warehouses (62% as compared to 43% in in-store warehouses), while there was no difference in the use of TV monitors (45% in both types of warehouses).

Findings regarding warehouse security methods in mass merchandising companies were similar to those for all respondents. As in last year's study, large companies (sales of at least $500 million) were more likely to use TV monitors and guards in both in-store and out-of-store warehouses than companies with sales of under $100 million. However, this difference was most pronounced in out-of-store warehouses, where 90% of the larger companies employed guards and 70% used TV monitors, compared to 6% and 19%, respectively, of the smaller companies. Larger companies also used closed doors and sealed trucks as security measures more frequently (95% vs. 75% for each technique). Of the industry segments, department stores reported the use of TV monitors in both in-store and out-of-store warehouses most frequently. They were also most likely to use guards and sealed trucks as security measures in in-store warehouses. Specialty stores reported the smallest incidence of sealed trucks in out-of-store warehouses.

Mass Merchandisers: Shrinkage Characteristics

This section focuses on the differences between the policies and procedures of low shrinkage companies (less than 2% shrinkage) and high shrinkage companies (at least 2% shrinkage) among the participants in the mass merchandising segment of the industry. There was insufficient data to conduct this type of analysis for the other industry segments. In future years, as our data base expands, we will include this type of data for all segments of the retail industry.

Inventory shrinkage for fiscal 1980 ranged from a low of less than 1% of sales to more than 4%. Fifty-three percent of the reporting companies had low shrinkage. Similar to last year's findings, companies that were successful in controlling shrinkage were also more successful in improving their loss prevention performance: 55% of the low shrinkage companies reported a decrease in shrinkage in 1980. This compares to 21% of the high shrinkage companies that improved their performance. Conversely, high shrinkage companies were more likely to report increased losses (59% vs. 27% of low shrinkage companies).

Mass Merchandisers: The Participants

Low shrinkage companies tended to differ from high shrinkage companies in both company size and security budget. In comparison, low shrinkage companies were more likely to be large: 37% of companies with low shrinkage had sales of at least $500 million (vs. 23% of the high shrinkage companies—Table 18) and 51% had a minimum of 100 stores (vs. 40% of the high shrinkage companies).

Companies less successful in controlling shrinkage had a slight tendency to spend more money on security. Whereas 37% of the high shrinkage companies spent at least .5% of their sales on security, only 27% of the low shrinkage companies had budgets of that magnitude (Table 19).

Mass Merchandisers: Personnel Practices

Companies that were successful in minimizing their shrinkage were more likely to have their corporate head of security report to the top operations executive than to any other executive. Over one-half (51%) of low shrinkage companies reported this relationship, compared to 33% of the high shrinkage companies. Furthermore, low shrinkage companies were more likely to assign local control of the security function to individual store managers. The store security head reported to the store manager in 49% of the low shrinkage companies, compared to 33% in the less successful companies.

There were no significant differences between the hiring policies of high and low shrinkage companies (i.e., background checks, credit checks, psychological tests, and security and loss prevention interviews). However, low shrinkage companies were more likely to consider a college education to be very important for new hires in the security function (34% vs. 19% of high shrinkage companies).

Low shrinkage companies had a greater tendency to provide their employees with more comprehensive training than high shrinkage companies. Companies successful in controlling shrinkage were more likely than high shrinkage companies to train new hires in the security function through the use of formal classes (46% vs. 27%), a training manual (82% vs. 69%), and in-store training (79% vs. 50%) (Table 20). They were also more likely to train all employees, including sales people, in the techniques of loss prevention (74% vs. 60%).

Mass Merchandisers: Security Practices

On their selling floors, high shrinkage and low shrinkage companies tended to emphasize different practices. Companies that were more successful in controlling shrinkage were more likely to use mirrors (94% vs. 77%), limited access areas (89% vs. 60%), and observation booths (71% vs. 50%). Less successful companies were more apt to use electronic tags (30% vs. 20% of low shrinkage companies) (Table 21).

In both in-store and out-of-store warehouses, low shrinkage companies were more likely to keep warehouse doors closed than their less successful counterparts (100% vs. 85% in-store and 86% vs. 76% out-of-store). In contrast, in in-store warehouses, high shrinkage companies were more likely than low shrinkage companies to use guards (50% vs. 27%), TV monitors (50% vs. 30%), and sealed trucks (69% vs. 55%).

Mass Merchandisers: Prosecution Policies

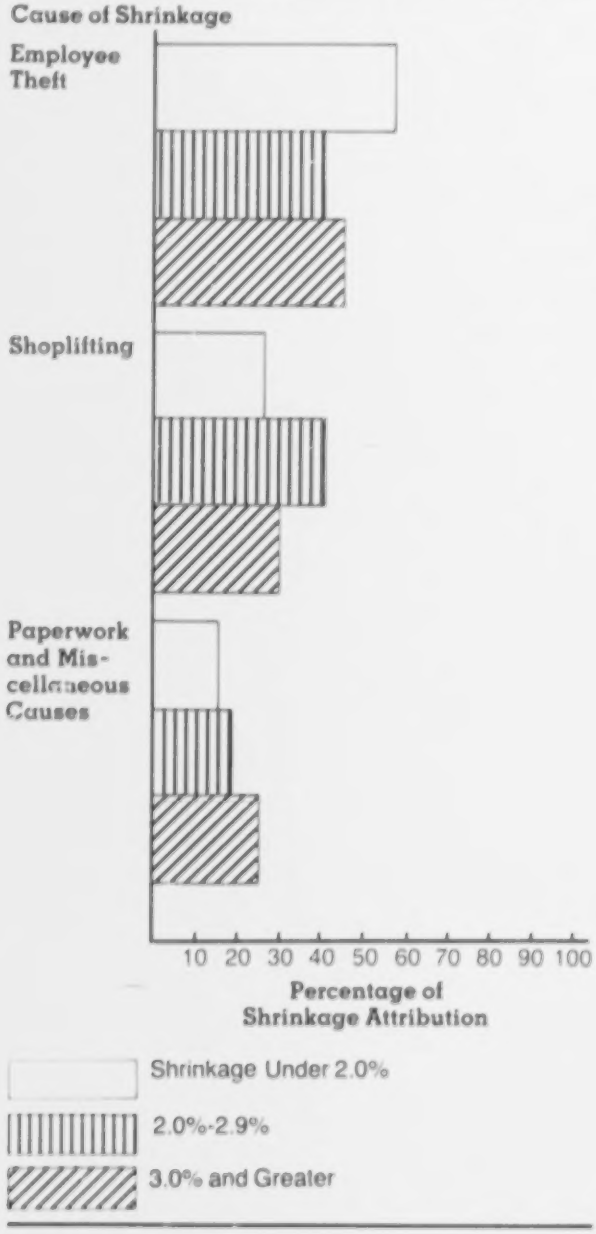
While there were no significant differences in the stated prosecution policies of low and high shrinkage companies, in practice, the more successful companies were

more likely to prosecute. Over one-half of the low shrinkage companies prosecuted at least three-quarters of all individuals they apprehended (56% vs. 17% of high shrinkage companies) and one-third prosecuted at least 95% (compared to 8% of high shrinkage companies).

Mass Merchandisers: Perceived Causes of Shrinkage

When determining the causes of shrinkage, officials in high and low shrinkage companies attribute the problems to different causes (Graph D). Overall, companies that were more successful in controlling shrinkage attributed more than one-half (57%) of their loss to employee theft, whereas high shrinkage companies attributed only 43% of their shrinkage to that cause. In contrast, less successful companies attributed 36% of their shrinkage to shoplifting, compared to 27% in low shrinkage companies.

Graph D
Mass Merchandisers: Attributions of Aggregate Shrinkage by Shrinkage Percentage



Profile of Low Shrinkage Mass Merchandisers

The following profile presents a summary of the characteristics and loss prevention policies of those mass merchandising companies that reported shrinkage of less than 2%.

General Characteristics

- Often large in size: 37% reported sales in excess of $500 million, and 51% had at least 100 individual locations.
- Often have at least one-half of company stores in suburban locations (72%).
- Tend to spend less than .5% of total sales revenues on their security function (74%).

Personnel Practices

- The corporate head of security usually reports to the top operations executive (51%).
- The individual stores' heads of security most frequently report directly to the store manager (49%).
- All employees, including sales personnel, are trained in the techniques of loss prevention (74%).
- New hires in the security function receive special training (91%) through the use of a training manual (82%), in-store training (79%), and or formal classes (46%).
- New hires for the security function are screened through the use of background checks (88%) and security or loss prevention interviews (66%). Background checks are also performed in the screening of nonsecurity personnel (88%).
- Employees are rewarded for their role in improving shrinkage (87%) through the use of payments (52%) or some other form of recognition (65%).

Control Policies

- Companies take a hard-line approach towards prosecutions: 56% prosecute at least three-quarters of individuals apprehended; 33% prosecute 95% or more.
- Most companies (63%) maintain perpetual inventory records, and the inventory is taken annually (66%).
- Security devices most likely to be used in the selling area are mirrors (94%), limited access areas (89%), and observation booths (71%).
- As a security precaution, companies are likely to ensure that both in-store and out-of-store warehouse doors are kept closed (100% and 86%, respectively).

Attitudes Regarding Shrinkage

- Retailers are likely to attribute the greatest portion of their shrinkage to employee theft: 50% attributed at least one-half of their shrinkage to this problem.
- Retailers believe that the three most effective actions they could take to reduce shrinkage in their companies are to improve employee education (97%), employee screening (61%), and paperwork and accounting methods (55%).

Tables

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Guide to the Tables

The following tables correspond to the discussion of survey findings presented in the text of the report. While the text highlighted and interpreted the survey findings, the tables provide more detailed statistics for the reader.

Reading the Tables

All tables in this report are organized vertically. The first column indicates the topic of the table. It lists responses by the participants to the survey questions. Each subsequent column presents an analysis of the data. For example, the topic of Table 2 is "Sales" and the first analysis is of "Mass Merchandisers." Reading down the table, the reader will find that 1% of all of the responding mass merchandisers had sales volumes of less than $10 million, 19% had sales of between $10 million and $49 million, and so on.

In interpreting the tables, one should be alert to two features: no answers and multiple responses. "No answer" indicates the proportion of participants that did not answer a question. For example, Table 7 shows that 4% of all participants did not indicate the number of full-time employees in their security function. Multiple responses occur on tables where participants may select more than one answer to a question. Frequently, the totals are more than 100% when multiple responses occur. Table 10, "Methods Used to Screen Security Personnel," is a typical example of a multiple response question.

Table 1
Shrinkage Results

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Percentage of Shrinkage	1.8%	2.7%	2.2%	1.9%
Amount of Shrinkage (millions of dollars)	$835	$108	$78	$1,021

Table 2
1980 Sales Volume of Participating Companies

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Under $10 Million	1%	0%	5%	2%
$10 to $49 Million	19	15	14	17
$50 to $99 Million	6	27	27	14
$100 to $499 Million	46	50	54	48
$500 Million to $1 Billion	15	8	0	11
$1 Billion and Over	13	0	0	8

Table 3
Analysis of Participants by Number of Stores

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
1 to 9	15%	27%	18%	18%
10 to 49	29	65	9	33
50 to 99	10	8	23	12
100 to 199	14	0	9	10
200 to 499	18	0	26	16
500 or More	14	0	14	11

Table 4
Location of Stores

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
100% Urban	23%	15%	0%	17%
1% to 49% Suburban	17	16	0	13
50% to 74% Suburban	14	8	20	14
75% to 99% Suburban	29	49	60	40
100% Suburban	17	12	20	16

Table 5
Shrinkage as a Percentage of 1980 Sales Revenue

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Less than 1%	14%	4%	5%	10%
1% to 1.49%	14	17	5	13
1.5% to 1.99%	26	21	25	25
2% to 2.49%	17	17	15	17
2.5% to 2.99%	9	21	20	14
3% to 3.49%	11	12	0	9
3.5% or more	9	8	30	13

Table 6
Total Security Expenditure as a Percentage of 1980 Sales Revenue

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
.1%	17%	12%	33%	18%
.1% to .24%	25	8	33	22
.25% to .49%	26	12	13	21
.5% to .99%	25	56	13	31
1% or More	7	12	8	8

Table 7
Number of Full-Time Employees in the Security Function

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
None	5%	0%	9%	5%
1 to 4	15	12	36	18
5 to 9	10	8	32	14
10 to 19	13	0	13	10
20 to 99	27	57	5	29
100 or More	26	19	0	20
No Response	4	4	5	4

Table 8
Person to Whom the Corporate Head of Security Directly Reports

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Chairman of the Board	5%	0%	5%	4%
President	23	15	18	21
Top Operations Executive	41	38	41	40
Top Financial Executive	12	31	9	15
Top Personnel Executive	6	0	9	6
No Head of Security	6	4	9	6
None of the Above	7	12	9	8

Table 9
Person to Whom the Individual Store's Head of Security Directly Reports

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Store Manager	38%	42%	9%	34%
Regional Security Director	14	23	9	15
Corporate Security Director	21	19	27	21
No Store Head of Security	19	12	36	21
None of the Above	8	4	19	9

Table 10
Methods Used To Screen Security Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Background Check	92%	96%	95%	93%
Credit Check	37	64	58	46
Polygraph	37	32	26	34
Security/Loss Prevention Interview	69	92	74	75
Personality or Psychological Test	21	28	32	24

Table 11
Methods Used To Screen Nonsecurity Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Background Check	87%	86%	86%	87%
Credit Check	26	19	19	23
Polygraph	19	10	24	18
Security/Loss Prevention Interview	9	5	5	7
Personality or Psychological Test	29	38	38	32

Table 12
Prior Experience Considered To Be Very Important in Hiring Security Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Significant Retail Experience	60%	56%	72%	61%
College Education	24	20	28	24
Law Enforcement Background	14	8	22	14

Table 13
Training Programs for Personnel

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Training for Security Personnel				
Training Manual	81%	62%	78%	76%
In-Store Training	68	69	50	66
Formal Classes	35	38	28	34
No Orientation Program	8	23	6	11
Training for All Employees in Techniques of Loss Prevention	70	54	50	63

Table 14
Reward Policies for Improved Loss Prevention

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Pay Employees for Their Role in Improving Shrinkage or Apprehensions	54%	88%	65%	64%
Provide Other Recognition to Employees Instrumental in Controlling Shrinkage	57	54	45	54
Do Not Reward Employees for Improved Loss Prevention	17	8	20	14

Table 15
Security Devices Used on the Selling Floor

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	85%	85%	73%	84%
Limited Access Areas	74	73	50	70
Observation Booths	59	77	14	54
TV Monitors	47	73	23	48
Electronic Tags	21	62	45	33

Table 16
Percentage of Participants Utilizing a Security Device That Believe It To Be the Most Effective

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	6%	5%	0%	5%
Limited Access Areas	26	12	36	25
Observation Booths	52	22	67	45
TV Monitors	11	28	20	17
Electronic Tags	44	47	56	48

Table 17
Percentage of Participants Utilizing a Security Device That Believe It To Be the Least Effective

	Mass Merchandisers	Department Stores	Specialty Stores	All Participants
Mirrors	69%	48%	75%	66%
Limited Access Areas	18	12	9	15
Observation Booths	4	17	0	8
TV Monitors	17	29	20	20
Electronic Tags	6	7	0	5

Table 18
Mass Merchandisers:
1980 Sales Volume of Participating Mass Merchandisers by Shrinkage Percentage

Sales Volume	Shrinkage Percentage Under 2%	2% to 2.9%	3% and Over
Under $100 Million	29%	18%	31%
$100 to $499 Million	34	58	46
$500 Million to $1 Billion	14	18	15
Over $1 Billion	23	6	8

Table 19
Mass Merchandisers:
Total Security Expenditure as a Percentage of 1980 Sales Revenue by Shrinkage Percentage

Security Expenditure	Shrinkage Percentage Under 2%	2% to 2.9%	3% and Over
Less than .1%	21%	7%	17%
.1% to .24%	24	46	8
.24% to .49%	29	20	25
.5% to .99%	21	27	33
1% or More	6	0	17

Table 20
Mass Merchandisers:
Training Programs for Personnel by Shrinkage Percentage

Program	Shrinkage Percentage Under 2%	2% to 2.9%	3% and Over
Training for Security Personnel			
Training Manual	82%	60%	82%
In-Store Training	79	53	46
Formal Classes	46	20	36
No Orientation Program	9	7	18
Training for All Employees in Techniques of Loss Prevention	74	71	46

Table 21
Mass Merchandisers:
Security Devices Used on the Selling Floor by Shrinkage Percentage

Device	Shrinkage Percentage Under 2%	2% to 2.9%	3% and Over
Mirrors	94%	77%	77%
Limited Access Areas	89	65	54
Observation Booths	71	59	39
TV Monitors	43	53	46
Electronic Tags	20	18	46

ARTHUR YOUNG
1982 Loss Prevention Checklist

This list indicates several steps that can be taken by retailers to help control shrinkage. Does your company use these techniques?

	Yes	No
1. Do staffing schedules of both security and sales personnel reflect:		
(a) customer traffic patterns?	___	___
(b) promotional and seasonal staffing needs?	___	___
2. Are selling personnel adequately trained in security and loss prevention techniques?	___	___
3. Are background checks, polygraphs, or personality tests used and currently evaluated for all hires?	___	___
4. Are selling personnel aware of the method used to reach security personnel in case of emergency?	___	___
5. Are selling personnel properly trained in the writing of saleschecks, the use of register equipment, and the reading of price tickets?	___	___
6. Are conspicuous signs posted throughout the store warning that all shoplifters will be prosecuted?	___	___
7. Are all store areas kept locked when not in use?	___	___
8. Are locking devices on showcases and doors checked frequently for state of repair?	___	___
9. Are spot audits made of merchandise requiring electronic tags to determine compliance?	___	___
10. Are all shoplifters, both customers and employees, prosecuted?	___	___
11. Are statistics maintained segregating apprehensions of both employees and customers?	___	___
12. Are results of apprehensions, convictions, and prosecution policies posted in employee work areas (excluding selling floor)?	___	___
13. Are security personnel and guards stationed at the door completely knowledgeable as to techniques of apprehension to avoid legal problems?	___	___
14. Does the receiving department check incoming merchandise against vendor invoices to ensure that all items are present?	___	___
15. Are all discrepancies documented and investigated immediately?	___	___

	Yes	No
16. Is the vendor invoice matched against a purchase order on file?	___	___
17. Are retail price tickets checked to ensure correctness?	___	___
18. Is the merchandise adequately protected and accounted for when it is moved from receiving or storage areas to the selling floor?	___	___
19. Is inventory of high-unit items taken on a daily basis?	___	___
20. Are there strict controls and frequent reviews for the handling of:		
(a) layaways?	___	___
(b) employee discounts?	___	___
(c) markdowns?	___	___
(d) interstore transfers?	___	___
21. Are purchase markdown and interstore transfer journals distributed and reviewed on a regular basis?	___	___
22. Are all customer claims of nondelivery investigated promptly?	___	___
23. Are shrinkage statistics maintained by department and compared to prior years' results?	___	___
24. Are policies in effect that provide for timely follow-up of high shrinkage departments?	___	___

For additional copies of this Loss Prevention Checklist, or questions about the implications of your answers, please contact:

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